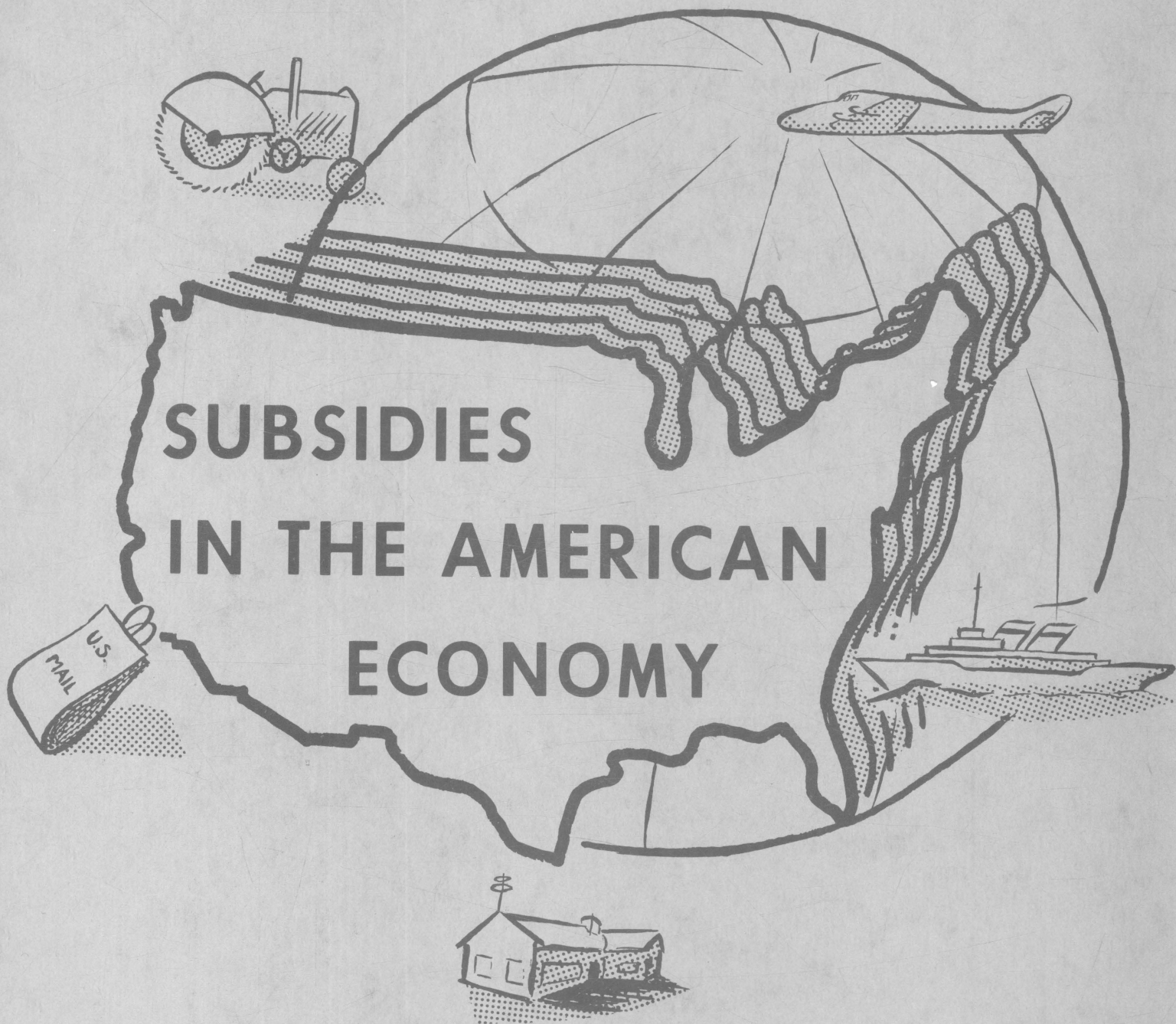


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# SUBSIDIES IN THE AMERICAN ECONOMY

by

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There is wide knowledge that subsidies exist, but little understanding of their intent, use or function. Farm subsidies have been widely publicized and criticized. Little is known or said by most people about hundreds of non-farm subsidies which have operated to the advantage of individuals or business units for many years. Subsidies are so confusing because of several reasons.

First, there are many possible kinds. They may be proposed for or by consumers, producers, marketing agencies, the professions or to any mixture of these or any segment of one or more of them.

Secondly, subsidies may be made available for a wide variety of intended purposes -- to stimulate consumption, to stimulate production, to expand transportation, to encourage foreign trade, to encourage domestic industrial development, to make price controls effective, to reduce inequalities of income, to protect those disadvantaged by war, to stabilize the economy, to prevent inflation, to encourage risk taking, to protect industries basic to the general welfare, to redistribute income, to care for the needy and others.

Third, the subsidy question is further complicated by being a mixture of economic, political, moral and social considerations.

Thus, we have a most complex and confusing situation. It is not surprising that the public is "bombarded" with all sorts of statements -- both true and false, both pro and con. In addition, the opinions of well informed people differ greatly.

## I. HISTORY OF SUBSIDIES

Subsidies are not new. Many times they have been called some other name, but we have had many of them, both large and small. They have been frequently used, under circumstances where the free market would not support the

recipient without the subsidy. People who are unable to work or those unable to find employment are paid subsidies, called relief or welfare payments. Subsidies have been paid to encourage the early development of the railroads, airlines and for all types of water transportation. Subsidies helped to increase circulation of magazines and newspapers and to attract capital into enterprises involving more than usual risk. All of these businesses and hundreds more not cited either were not self supporting or would not develop as rapidly as society wished without the subsidy. Many, if not all, still get subsidies, direct or indirect.

The subsidy is the oldest economic concept written into the laws of the United States. When the First Congress convened in 1789, one of its acts was to pass a tariff law. One objective was to protect and promote industrial development and another was to raise revenue for the government. This legislation also established a special subsidy mechanism to encourage the development of an American merchant fleet. It stipulated that goods imported into the United States on American vessels should have a 10 percent reduction in customs duties. In addition, a tonnage tax was imposed in favor of American shipping. This subsidy helped to build the maritime power of the new, struggling nation.

Private canal companies received substantial direct subsidies in the form of land grants from 1827 to 1866. It is estimated that government grants were 6.3 million acres or an area about the size of Maryland. The same group received other subsidies in the form of direct appropriations and loans. The objectives were to develop and expand the market for both agricultural and industrial goods and to develop the transportation system to encourage the settlement and growth of the country.

Railroad construction was subsidized by land grants between 1850 and 1871. During this period railroads received about 183 million acres, or an area larger by about 14 million acres than Texas, or about the combined size of Nebraska, Kansas, Iowa and Missouri. The objective included the development of the transportation system.

Available records indicate that the first mail subsidy was paid in 1845. Many millions of dollars have been spent for ocean and air mail subsidies. Objectives included the development of the transportation system and encouragement of wider circulation of reading materials.

From these early beginnings subsidies of a direct or indirect nature have developed to where their impact is felt by virtually all elements in our economic structure. We have subsidies of a direct nature included in the Bureau of the Budget's "Current Expenses for Aids and Special Services" which shows payments to agriculture, business, labor, homeowners and tenants, veterans, international assistance and general aids.

In addition, we have the indirect subsidies providing for tariffs, public housing, rights to radio and television channels, and a host of others not mentioned.

## II. WHAT IS A SUBSIDY?

There is no officially recognized definition and there is no unanimous or uniform agreement on what constitutes a subsidy. There are probably as many definitions as there are people talking about subsidies. Understanding of the term "subsidy" is hampered by the reluctance of many beneficiaries to call them by their true name. Possibly many critics are benefiting from some type of subsidy called by some other name.

### A. Definition of a Subsidy

The Bureau of the Budget avoids the use of the term "subsidy" whenever possible. In the Budget of the United States Government in the section called "Current Expenses for Aids and Special Services" it refers to financial aid or assistance given by the Federal Government to private individuals or organizations. This avoids the word "subsidy" but indicates that many people are recipients of government funds. The restricted definition used by the Bureau of the Budget does not indicate some benefits by government legislation, to various groups.

For this discussion then we are defining a subsidy as any device, whereby some individuals, groups, or business units receive government funds or benefits from government actions over and above the exchange value of goods supplied or services rendered.

Many governmental operations are not necessarily or basically subsidies since they produce goods or services for society. If these goods or services were produced by individuals or corporations, we would refer to them as business activities. Government -- federal, state and/or local -- performs many services for all of society such as education, police protection, fire protection and national defense. All the people as taxpayers pay a share of the costs, and all presumably share, perhaps unequally, in the benefits from these types of government action. These normal functions of government are excluded in our definition of "subsidy."

#### Features of a Subsidy

Any subsidy under this definition has two essential features. The first feature is that government has to be involved. Government action or legislation may involve the collection, appropriation and distribution of taxpayers funds to certain individuals, groups, or business units. The money for the direct subsidy may come out of current taxes, government savings or it may be paid for by adding to the government debt. Regardless of the government source of funds, its status as a subsidy is the same.

In another type of action government legislation may provide goods and/or services below the cost of operation, grant protection or privileges which give special advantages to some individuals, groups, or business units. This type of action may provide indirect subsidies or benefits to only some segments of the economy. This type of action either reduces the costs of operation or increases the profits of the beneficiaries. If such government activities were eliminated, those benefited either would have to reduce profits or wages or charge more for their product.

The second feature of a subsidy is that income must be redistributed. This is due to the lack of an economic "horn of plenty" from which we can draw the funds for subsidies. The cost must be borne by someone. If the costs were to be borne by the recipients in proportion to the benefits, no redistribution would be involved, nor would it be a subsidy. If this were the case, the process would be futile.

### III. ALTERNATIVE METHODS OF GRANTING SUBSIDIES

Subsidies can be made available to various segments of the economy in several ways. These are as follows:

#### A. Direct Payment

A direct payment by government of taxpayers funds can be made to individuals, producers, or distributors. Examples might include veterans bonuses, relief payments to the needy, wartime food subsidies, etc.

#### B. Purchase and Sale

The government can purchase all or a part of the output of the product to be subsidized and then give or sell it back to the industry or to consumers at a lower price than was paid. The loss from this type of transaction constitutes the subsidy. The Commodity Credit Corporation operations are an example of this method.

#### C. Operation at a Loss

When the government provides a service at a loss, we have another form of subsidy. The postal deficit is an example. This action reduces the expenses of publishers and advertisers, or provides reading material to consumers at costs lower than otherwise. No government funds are made available directly to individuals or business units, but many groups benefit indirectly.

#### D. Granting Protection or Privileges

Government legislation has provided certain privileges and protection (the tariff would be one illustration) for some groups. This is an indirect subsidy which provides immunity from some laws, or protects some industries from the effects of competition.

#### IV. WHO GETS SUBSIDIES AND WHAT ARE SOME OF THE COSTS?

The subsidy question today is thrust into public attention by "arguments" over farm price support legislation. This legislation providing direct government funds to farmers is a relative newcomer at the subsidy "table" since this type of legislation was first put into effect in an important manner in 1933 with the passage of the Agricultural Adjustment Act. Legislative attempts were made to improve farm income prior to this, but they were either vetoed or short lived. We should recognize that price support legislation was not the first subsidy to agriculture. We might cite as an indirect subsidy the Homestead Act of 1862 which distributed land to farm people below market price.

People generally do not like to hear the word subsidy. This is partly because it is sometimes used in a derogatory manner. Some city residents and businesses believe the farm group is the only business group which has received substantial aid from the government.

The question arises then as to whether any group except agriculture is being given a subsidy today. To help answer this question we need only look at The Budget of the United States Government and examine the portion entitled, "Current Expenses for Aids and Special Services."

This section includes the direct government payments and some of the indirect subsidies like operational expenditures in excess of receipts. This section is a net operational table -- not the total expenditures. Frequently discussions of subsidies use expenditures without considering the receipts from many operations. This operational table does not, however, include all assistance or subsidies given these groups by Federal Government actions. The Budget says, ". . . benefits accrue to various groups through tax provisions and other non-expenditure aids which are not included in this analysis."

Some expenditures yield benefits to all society over a period of time and are considered an investment. These are not considered subsidies. This

investment includes the physical assets and broad development programs. It contains such expenditure items as research and development, education, and health and additions to state and local assets. Also, excluded as subsidies are administrative and other costs connected with defense, foreign affairs, law enforcement, tax collection, interest payments on debt and other normal functions of government.

Some expenditures yield only immediate benefits to specific economic groups. They are included in "Current Expenses for Aids and Special Services" and are considered subsidies. It contains the administrative and other operating expenses as well as maintenance costs of physical assets and other current expenditures which primarily provide aids or special services to one or more specific economic groups.

The amounts reported by the Bureau of the Budget in this section reveal some interesting facts. An analysis of the 10 fiscal years 1950-59 shows that many benefited to a greater extent than agriculture, and that many segments of our population get a small piece of the pie.

During the 1950-59 period, we find that agriculture received (in unadjusted dollars) about \$15.8 billion, business \$8.9 billion, labor \$2.8 billion, veterans \$46.7 billion, and general aids \$17.8 billion in subsidies. Whenever dollars are discussed in this report, the reference is in terms of unadjusted dollars. One large group of people aided by government is currently paying more into the Treasury than they receive. This group includes the home owners and tenants who have a "surplus" of about \$923 million in the 10-year period under study.



TABLE I  
Current Expenses for Aids and Special Services  
For Fiscal Years 1950-59

(in millions)

Year	Agri.	Business	Labor	Home Owners and tenants	Veterans	General Aids a/	Total
1959b/	\$3,016	\$ 602	\$ 353	\$- 17c/	\$ 4,878	\$ 3,629	\$12,461
1958b/	\$3,478	\$1,264	\$ 344	\$- 19	\$ 4,897	\$ 2,043	\$12,007
1957	\$3,564	\$1,012	\$ 333	\$- 54	\$ 4,679	\$ 1,763	\$11,297
1956	\$1,846	\$1,066	\$ 412	\$- 89	\$ 4,673	\$ 1,640	\$ 9,548
1955	\$1,074	\$ 757	\$ 269	\$-105	\$ 4,375	\$ 1,608	\$ 7,978
1954	\$ 540	\$ 648	\$ 216	\$-116	\$ 4,185	\$ 1,647	\$ 7,120
1953	\$ 305	\$ 934	\$ 215	\$-123	\$ 4,178	\$ 1,506	\$ 7,015
1952	\$ 463	\$1,041	\$ 200	\$-129	\$ 4,710	\$ 1,364	\$ 7,649
1951	\$ 905	\$ 809	\$ 197	\$-160	\$ 4,515	\$ 1,327	\$ 7,593
1950	\$ 601	\$ 789	\$ 228	\$-111	\$ 5,583	\$ 1,264	\$ 8,354
Total	\$15,792	\$8,922	\$2,767	\$-923	\$46,673	\$17,791	\$91,022

a/ Includes aid for those on relief, aged, blind, disabled, dependent children, school lunch, hospital and medical care along with aids to Indians.

b/ Estimate

c/ A minus (-) sign indicates receipts in excess of expenditures.

SOURCE: The Budget of the United States Government, Fiscal Years 1950-59.

Total subsidies in the 10-year period have amounted to over \$91 billion.

Using as a base the average civilian population for the same 10-year period, we find the total net expenditures in the form of subsidies to be \$564.86 per capita or \$56.49 annually for each man, woman and child.

For the 10-year period the per capita costs or taxpayers funds distributed to two major groups exceed those for agriculture while three major groups have costs below agricultural subsidies. The breakdown of per capita costs or the necessary taxes for the categories in the budget's "Current Expenses for Aids and Special Services" for the 10-year period can be seen in the following table.

TABLE II  
Average Cost Per Capita of Subsidies for Six  
Groups, U.S., 1950-1959

Group	Cost Per Capita 1950-59
Agriculture	\$ 98.00
Business	55.37
Labor	17.17
Home Owners and Tenants	-5.73 a/
Veterans	289.64
General Aids	110.41
Total	\$564.86

a/ A minus (-) sign indicates receipts in excess of expenditures.

SOURCE: TABLE I and July 1 annual population from Current Population Reports.

Another way to look at the Federal Budget expenditures from 1950 through 1959 is to examine the average amount received from government for each unit in the group. When this is done we find that each farm, on the average, has received \$309.65 -- the highest per unit subsidy. Of course, many farmers have received none, or very little, while others have had many times this amount. The same thing would be true within each of the other groups. The estimated average amount received in direct aids to various groups is shown in Table III. It is recognized that farms and businesses in the table may represent several citizens while the wage and salary workers plus veterans are individual citizens.

TABLE III

Estimated Average Subsidy Received Per Unit for the  
10-year Period, U.S., 1950-1959

Group	Average Number of Units	Average Subsidy Received Per Unit
	(Millions)	
Farms	5.1	\$309.65
Businesses	4.2	212.43
Wage and Salary workers, excluding government	42.2	65.57
Veterans	20.7	225.47

SOURCE: TABLE I, Statistical Abstract and USDA Statistical Bulletin 246

#### A. Subsidies to Agriculture

The farm program which evokes much of the discussion of subsidies came into being during the 1930's -- a period when agriculture as well as other segments of the economy was in dire straits. In the price support program, which is a major aspect of the farm program, the government provides for loans on **storable** crops. The crops are put up as collateral by farmers and if the farmers do not repay the loan, the government assumes ownership. In this operation the government then stores and eventually moves the commodity into use. Recent recovery rates of government have been about 70¢ on each dollar.

From Table I it is clear that agricultural subsidies have increased at a rapid rate. In fact, they are 5 to 6 times (in unadjusted dollars) larger in recent years than in 1950. The current major concern probably arises from the large increase in the last 3 years, when subsidies were in excess of \$3 billion annually. The total cost in taxes per capita for the ten-year period was about \$98.00 -- somewhat less than some other categories, but also larger than some others.

A breakdown of the net operational loss -- the subsidy to agriculture -- for certain programs can be noted in Table IV. Price support losses in 1958 of \$985 million account for a little over one-fourth of the total. This \$985 million loss is a little less than individual welfare payments and a little more than mail subsidies. Sales of commodities by CCC for foreign currency account for one-third of the total loss. The Soil Bank program which removes some land from production accounts for a little less than one-sixth of the total.

Increases have occurred in most of the programs in the selected years (see Table IV). Some have increased slightly while others have had large increases. The total expenditures in unadjusted dollars have increased about 7.2 times from 1952 to 1958.

TABLE IV  
Subsidies to Agriculture by the Federal Government  
For Fiscal Years of 1952, 1955 and 1958

(in millions)			
Program	1952	1955	1958
Direct Programs			
Commodity Credit Corporation			
International Wheat Agreement	\$ 77	100	111
Sales for Foreign Currency	--	130	1,226
Price Support and others	184	472	985
Soil Bank Program	--	---	620
Sugar Act	60	70	71
Other	94	87	178
Other Agencies	-2a/	27	-2a/
Total Direct Federal Programs	<u>414</u>	<u>886</u>	<u>3,190</u>
Grants-in-Aid			
Removal of Surplus Agr. Commodities	--	43	133
Commodity Credit Corporation	--	135	142
Other	--	9	12
Total Grants-in-aid	<u>49b/</u>	<u>187</u>	<u>288</u>
TOTAL	<u>463</u>	<u>1,074</u>	<u>3,478</u>

a/ Minus (-) sign indicates receipts over expenditures. Farm labor revolving fund largely responsible.

b/ Breakdown not available in 1952.

SOURCE: The Budget of the United States Government, Fiscal Years, 1952, 1955 and 1958.

The U.S.D.A. presents a cumulative table incorporating the cost of programs "primarily for stabilization of farm prices and income." This table for the period 1932 through 1958 is as follows:

TABLE V

Realized Cost of Farm Price and Income Programs  
For Fiscal Years, 1932-1958 a/

(millions)

Program	26-Year Cost
Commodity Credit Corporation	
Non-recourse loan purchase and payment programs	\$ 3,896.1
Supply commodity export and other activities	62.2
Interest administrative and other general costs	<u>1,355.8</u>
Total, CCC	\$ 5,314.5
National Wool Act Program	120.7
International Wheat Agreement	981.6
Donations of Commodities to Other Nations	183.5
Commodities sold for Foreign Currency, Title I, P.L. 480	1,597.8
Removal of Surplus Agricultural Commodities	2,279.8
Sugar Act	-391.8
Soil Bank Act	1,053.6
Acreage Allotment Payments Under ACP	2,354.8
Other, Agricultural Adjustment Act of 1933, parity payments and other adjustment and surplus removal programs	<u>2,231.2</u>
Total	\$15,725.7

a/ The table on realized costs of agricultural and related programs reflects, essentially, the cost to the taxpayer, over a period of time, of all the subsidy programs of the Department of Agriculture.

SOURCE: U.S.D.A., Commodity Credit Corporation. Realized Cost of Agricultural and Related Programs, by Function or Purpose, Fiscal Years, 1932-1958.

Over one-half of the costs have occurred in the last 6 years. It needs to be emphasized that many of the large expenditures attributed to agriculture result in important benefits to segments of the economy other than agricultural producers. This is particularly true with respect to the programs for storing, handling, and disposing of surplus agricultural commodities acquired under the CCC price support program. The programs or activities involved include the International Wheat Agreement, sales for foreign currency and donations of commodities to other nations.

The House Committee on Agriculture said in 1958 that "foods go to approximately 14 million needy persons in this country, 1.5 million people in charitable institutions, and to an estimated 80 million needy people in 85 countries around the world.

The question, therefore, is: "Should this program where the benefits are shared so extensively by the consumers of food acquired by the government, be charged exclusively against farmers and the farm program?" 1/

B. Subsidies to Business

1. Some Direct Business Subsidies

Direct subsidies included in the budget for business groups totaled about \$8.9 billion and cost taxpayers \$55.37 per capita in the 10-year period being analyzed. These direct subsidies or expenses over and above receipts are shown in Table VI for 3 selected years.

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1/ U.S. Congress, House of Representatives, Committee on Agriculture, Government Subsidy Historical Review, U.S. Government Printing Office, Washington, D.C., June, 1958.

TABLE VI

Net Current Expenses for Aids and Special Services  
By The Federal Government to Business  
For Fiscal Years, 1952, 1955, and 1958

(in millions)

Program (Civil Programs)	1952	1955	1958
<b>Direct Programs</b>			
Small Business Administration	--	--	5
Reconstruction Finance Corporation	56	-15a/	--
Air Navigation Aids	93	86	154
Payments to Air Carriers	--	58	38
Ship Operating Subsidies	50	121	126
Rivers and Harbors and Flood Control:			
Maintenance and Operation	61	67	76
Panama Canal Company	-46a/	-8a/	-7a/
Post Office Deficit: Excluding Govt.			
mail and Non-Business Services	670	346	648
Navigation Aids--Coast Guard	137	43	137
All other b/	21	59	87
Total Business	1,041	757	1,264

a/ Minus (-) sign indicates receipts larger than expenses

b/ Includes a portion for expansion of defense production

SOURCE: The Budget of the United States Government, Fiscal Years, 1952, 1955 and 1958.

Note that air navigation aids, ship operating subsidies, harbor improvement and flood control have steadily increased in the three selected years. These are a subsidy to the business utilizing the facilities. The Panama Canal Company has had receipts in excess of expenditures, but the margin in this period is declining.

Airlines have been subsidized in the past and small feeder lines and some international routes are still subsidized. Payments have ranged from about \$40 million to \$64 million from 1954 to 1959. Trunk airline payments were largely eliminated in 1951, although last payments occurred in 1955. Policy with respect to airline subsidies seems to be one of withdrawal. Aside from the direct payments, air carriers benefit from airport and airway facilities, air navigational aids, and others supplied by other groups.

Postal deficits for the 10-year period from 1946 to 1956 in behalf of business have amounted to about \$6.0 billion. Most of the indirect subsidy in the form of reduced operating costs or reduced subscriber costs goes to consumers or businesses using second, third and fourth class mail. The businesses include magazines, newspapers, mail order houses, banks, corporations and groups using direct-by-mail advertising. This exceeds the total realized cost of about \$3.7 billion for programs "primarily for stabilization of farm prices and income" during the same 10-year period.

The Post Office Department in 1956 made estimates of the annual revenues and costs involved in handling several larger magazines. Revenues were estimated to be only 35 percent of the cost of handling these publications. For 1956, the revenues were estimated to amount to only \$21.4 million, while the costs were \$60.2 million. <sup>2/</sup> Results--a subsidy of \$38.8 million in 1956.

## 2. Some Indirect Business Subsidies

There are some legislative actions benefiting business that do not require payment of funds or a government service. One of these actions is the tariff. One of the objectives of the tariff in our history was to encourage the development of our industrial plants. Today some tariffs are for defense purposes while others not related to defense have become institutionalized.

In the institutionalized tariffs to the extent that tariffs shield American producers from foreign competitors, such tariffs act as a subsidy to these producers. In this case it is the American consumer, rather than the government, who pays the subsidy by paying a higher price than he would without the tariff. The foreign producers are effected adversely

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<sup>2/</sup> Op. Cit. P. 12.



by the tariff. The same results occur in the case of an export subsidy.

There are many other programs which have some of the characteristics of subsidies, but which either are of limited duration or for which the amount of subsidy is difficult to determine or which are borderline definition problems. One of these is the mineral depletion allowances permitting producers to deduct from income for tax purpose a substantial percent of their income. The intent of this legislation is to encourage development of their resources.

The Tennessee Valley Authority is an example of a multi-purpose project where determination of a subsidy is difficult. The functions of TVA include power production, fertilizer manufacturing, flood control, improvement of navigation, educational programs and others. Farmers receiving fertilizer distributed below cost receive a subsidy. There may well be other subsidies involved in this program. Because of the multiplicity of this program, it is virtually impossible to determine the extent of subsidy involved.

Rapid amortization for assistance to industry to expand defense facilities is often considered a subsidy. This government action provides for postponement of taxes for 5 years and is equivalent to an interest free loan. An interest free loan is worth some current cash. To the extent that interest could be earned on deferred taxes this might fall within the definition of a subsidy used herein. It is a subsidy-like program. If government should give a 10-year interest free loan for \$100, the individual could immediately invest \$75 in a series E government savings bond, which would provide enough money after 10 years to pay off the loan. The \$25 would be a net gain to the recipient of the interest free loan. This is how rapid amortization works -- except that it involves billions of dollars.

Land reclamation has as one of its goals the settling of land. To the extent that the cost of construction of irrigation projects is borne by interest free funds, even though repaid, would be a subsidy-like program similar to rapid amortization.

C. Subsidies to Labor

Direct subsidies included in the Federal Budget to labor amounted to about \$2.8 billion or \$17.17 in taxes for each person in the United States for the 1950-59 period. A breakdown of these expenditures of the government for three selected years can be seen in Table VII below.

TABLE VII  
Subsidies to Labor for Fiscal Years 1952, 1955 and 1958

(in millions)			
Program	1952	1955	1958
Direct Programs	14	77	9
Grants-in-Aid:			
Admin. of Unemployment Compensation and Employment Service	186	192	287
Payment to Unemployment Trust Fund	---	---	49
Total Labor	200	269	344

SOURCE: The Budget of the United States Government, Fiscal Years 1952, 1955 and 1958.

The trend in net government expenditures benefiting labor has been consistently upward since 1950. In fact, from TABLE I we note that there has been an increase of 54% from 1950 to 1959. This upward trend is not unusual and is characteristic of most of the classifications for the 10-year period.

The largest expenditure benefiting labor is the Federal-State program of unemployment insurance and employment service offices. The Federal Government makes grants to the states to cover the full costs of administering these offices. Employment services also benefit employers since workers are recruited to fill job vacancies.

#### D. Home Owner and Tenant Subsidies

Currently subsidies as represented by expenditures larger than receipts, consist chiefly of low rent public housing, capital loans on slum clearance and urban renewal projects. All of these activities, plus the loan and mortgage activities, tend to stimulate the construction business and financing institutions. Owners and renters also receive benefits from the subsidy-like program.

This is the one major group where receipts exceed the expenditures. This area has shown a net gain of \$5.73 per capita in the last ten years.

TABLE VIII

#### BALANCE SHEET FOR HOME OWNERS AND TENANTS FOR FISCAL YEARS 1952, 1955 and 1958

(In millions)

Program	1952	1955	1958
Direct Programs:			
Federal Home Loan Bank Board	---	-25	-38
Federal Nat'l. Mortgage Assn.	---	-52	-39
Federal Housing Admin.	-70	-118	-99
Other	-71	-10	12
Grants-in-Aid	12	---	---
Public Housing	---	67	99
Urban Renewal Fund	---	34	46
Total Home Owners and Tenants	-129 <sup>a/</sup>	-105	-19

<sup>a/</sup> Breakdown not available in 1952.

Minus (-) sign indicates receipts larger than expenditures.

SOURCE: Federal Budget

#### E. Veterans

Payments to individuals who served in the armed forces have been one of the major governmental expenditures in the last 10 years. Some might say that veterans expenditures were in exchange for goods or services. In any case, certain individuals receive benefits while others do not. The total government expenditures during the period were about \$46.6 billion or \$289.63 in tax per

capita. From TABLE I we note that annual payments have ranged between a low of about \$4.2 billion in 1953 and 1954, to a high of about \$5.6 billion in 1950. Since 1954 there seems to be a tendency for these to increase slightly, but they haven't as yet reached the 1950 level.

In TABLE IX we can see that considerable decrease has occurred in readjustment benefits in the selected years. The readjustment benefits include a portion for on-the-job training, losses and administration under the loan guaranty program and veterans unemployment allowances. About a one-third increase has occurred in pensions, the category which accounts for about two-thirds of the total expenditures. These payments are made for disabilities or deaths resulting from service and for pensions paid in non-service connected cases.

TABLE IX  
PAYMENTS TO VETERANS FOR  
SELECTED YEARS, 1952, 1955 and 1958

(in millions)			
Program	1952	1955	1958
Direct Programs			
Veterans Administration:			
Readjustment Benefits	1,390	680	758
Compensation Pensions	2,178	2,681	3,107
Hospital and Medical Care	652	680	787
Other	246	185	189
Unemployment Compensation	---	106	44
Other Agencies	---	5	3
Grants-in-Aid: Vets. Admin.	4	8	9
Total Payments to Veterans	4,469 a/	4,346 a/	4,897

a/ Treasury Department payment to unemployment trust funds of \$241 and \$29 million for 1952 and 1955 respectively deducted.

SOURCE: The Budget of the United States Government, Fiscal Years 1952, 1955, and 1958

#### F. General Aids

This group of subsidies has taken \$17.8 billion in tax dollars in the last 10 years or \$110.40 for each person in the United States. The bulk of these expenditures goes to help the needy. This includes those on relief,

aged, blind, disabled, and dependent children. Other programs are for the low-priced school lunch programs, hospital operation and medical care along with aids to Indians.

From TABLE X it can readily be seen that public welfare programs require the greatest portion of the Federal money in this category. This portion has increased from about 86 percent in 1952 to over 89 percent of the total in 1958. Many of these programs are supplemented by state and local monies which would greatly increase the subsidy to individuals.

TABLE X  
SUBSIDIES PRIMARILY TO INDIVIDUALS BY  
THE FEDERAL GOVERNMENT FOR FISCAL YEARS  
1952, 1955 and 1958

(in millions)			
Program	1952	1955	1958
Direct Federal Programs			
Dept. of Health, Edu. and Welfare	---	47	63
Dept. of Interior	---	21	26
Other Agencies	---	21	21
Total Direct Programs a/	<u>87</u>	<u>89</u>	<u>109</u>
Grants-in-Aid:			
Disaster relief	---	9	15
Federal Civil Defense Admin.	16	---	---
School Lunch Program	84	83	99
Public Assistance and Welfare	1,178	1,427	1,820
Total Grants-in-Aid	<u>1,278</u>	<u>1,519</u>	<u>1,933</u>
Total General Aids	<u>1,364</u>	<u>1,608</u>	<u>2,043</u>

a/ No breakdown for 1952.

SOURCE: The Budget of the United States Government, Fiscal Years 1952, 1955 and 1958.

## V. EVALUATION OF SUBSIDIES

An individual attempting to evaluate subsidies must first consider the objectives of any program. The objective can vary with each program. It may be to increase production of certain goods or services that society feels is desirable for the general welfare or it may be to improve prices and incomes of certain groups, or it may be to help the needy, or to encourage expansion of certain businesses or many others.

Once the program objective is clarified then some evaluation can occur.

Such questions as these and possibly others need to be answered:

- (1) How well does the program meet its objective?
- (2) What are the benefits of the program?
- (3) What are the effects on consumers prices and taxes?
- (4) Does the program objective agree with the individual objectives?

There are numerous people on both sides of the subsidy question. Many pro and con statements can be heard and seen in print. Many of these are influenced by the particular position of the individual or by his particular objectives. Some of the major arguments or reasons both for and against subsidies are summarized below:

**A - For Subsidies**

1. With the payment of direct subsidies or of indirect action, it is possible to stimulate production of commodities without raising the price level.
2. Subsidies can raise income to producers or influence consumption without raising the distributor's margins.
3. Subsidies can be useful in attaining socially accepted goals, i.e. care of needy, or economic stability, or any goal society deems desirable as national policy.
4. Resource adjustment can be encouraged and accelerated.
5. A redistribution of income is encouraged which equalizes purchasing power.
6. In a rapid inflationary period, when prices and wages are rising, subsidies may save the government and consumers a great deal more than the cost of taxpayers by curtailing the rise in prices.

**B - Against Subsidies**

1. Subsidies could delay resource adjustment which created the demand for the original subsidy.
2. They encourage government rules and regulations which suppresses a certain amount of freedom.

3. Taxes must be collected by government to pay for them or they must be added to the national debt.
4. Additional government personnel may be required to administer the subsidy program.
5. Subsidies once established create a precedent and bring demands for more subsidies.
6. Their use as a mechanism to influence allocation of resources substitutes a government bureau for a market.

Note that most of the above pro and con statements are related to someone's objective.

#### C. Some Safeguards in the Use of Subsidies

Subsidies have been utilized to a great extent in the U.S. Some recommended safeguards in their use is probably in order. In this regard, Jules Bachman in an article, "The Lessons of Wartime experiences" 3/ said:

"The real danger lies in the abuse of subsidies rather than in their limited use. Unless the conditions under which subsidies can be paid are carefully restricted politically, the path of least resistance could easily become accessions to demand ... through subsequent subsidy programs. To some extent this has happened with farm products....Safeguards can be established to prevent abuses. Whenever subsidies are used, certain safeguards can and should be adopted. These include: (1) restriction of subsidies to essential products; (2) adoption of all possible steps to reduce costs; (3) profits of recipients should not be excessive; (4) price adjustments at other stages of production or distribution should be adopted instead of subsidy payments if at all possible; (5) provision for their termination as soon as conditions make this possible."

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3/ Summers, Robert E., Collection of articles entitled, Subsidies for Farmers, H.W. Wilson Co., New York, 1951.

## VI. CONCLUSION

Most subsidies were established to serve a useful purpose. Some have outlived their usefulness. Some subsidy devices and arrangements have been abused. Many of them have served a socially accepted function. The effects of subsidies permeate our society, and few segments of our economy are completely unaffected by them.

In view of the diversity of these subsidy programs, either condemnation or praise of Federal subsidies as such is unrealistic. Each particular program which contains an element of subsidy must be judged independently, taking into account the economic, political, moral and social conditions prevailing at the time.



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